

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS &
SUPPLEMENTAL INFORMATION

June 30, 2006

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

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GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

OFFICIALS
Year Ended June 30, 2006

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kenneth Mutch	Trustee	May 2007
Dennis Brubaker	Trustee	May 2009
Harold Dole	Trustee	May 2011
Edward Ayers	Utilities Manager/Secretary	Indefinite
Mary Harken	A & S Manager/Treasurer	Indefinite

Independent Auditor's Report

To the Board of Trustees
Grundy Center Municipal Utilities

I have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the Grundy Center Municipal Utilities as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Grundy Center Municipal Utilities' management. My responsibility is to express an opinion on these financial statements based on my audit. The municipal utilities are a component unit of the City of Grundy Center, Iowa. The City is audited separately.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

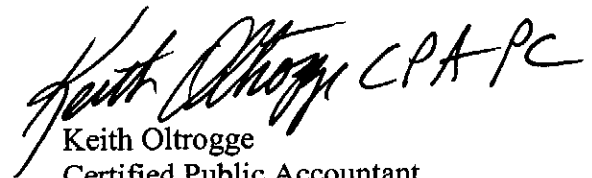
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the Grundy Center Municipal Utilities as of and for the year ended June 30, 2006, and its indebtedness at June 30, 2006, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 17, 2006 on my consideration of the Grundy Center Municipal Utilities' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 6 and 17 through 18 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those cash basis financial statements. The supplemental information included in Schedules 1 through 10 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in my audit of the aforementioned financial statements and, in my opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

 CPA PC
Keith Oltrogge
Certified Public Accountant

October 17, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Grundy Center Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Revenues of the Utilities' business type activities increased 7%, or approximately \$257,000 from fiscal 2005 to fiscal 2006.
- Disbursements decreased .01%, or approximately \$4,500, in fiscal 2006 from fiscal 2005.
- The Utilities' total cash basis net assets increased 9%, or approximately \$610,000 from June 30, 2005 to June 30, 2006.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial activities.

The Enterprise Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Enterprise Fund financial statements report the Utilities' operations in detail.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

Other Supplementary Information provides detailed information about each Enterprise Fund.

Basis of Accounting

The Utilities maintain their financial records on the basis of cash receipts and disbursements and the financial statements of the Utilities are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Proprietary funds account for the Utilities' Enterprise Funds. Enterprise Funds are used to report business type activities. The Utilities maintain seven Enterprise Funds to provide separate information for the water, sewer and communications funds.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The Utilities' cash balance increased from a year ago, increasing from \$5.900 million to \$6.500 million. The analysis that follows focuses on the changes in cash balances.

Changes in Cash Basis Net Assets

	Year Ended June 30,	
	2006	2005
Receipts and Transfers:		
Program Receipts:		
Charges for service	\$ 3,237,371	\$ 2,848,242
General receipts:		
Unrestricted investment earnings	202,617	129,291
Other general receipts	377,161	582,723
Total Receipts	\$ 3,817,149	\$ 3,560,256
Disbursements	\$ 3,206,728	\$ 3,211,221
Increase in cash basis net assets	\$ 610,421	\$ 349,035
Cash basis net assets beginning of year	5,899,023	5,549,988
Cash Basis Net Assets End of Year	\$ 6,509,444	\$ 5,899,023

DEBT ADMINISTRATION

At June 30, 2006, the Utilities had approximately \$1,900,000 in long-term debt, compared to approximately \$2,105,000 last year, as shown below.

	<u>Outstanding Debt at Year-End</u>	
	June 30, 2006	2005
Revenue notes	\$1,900,000	\$2,105,000

Debt decreased as a result of regular payments on the notes.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mary Harken, 706 6th Street, Box 307, Grundy Center IA 50638.

FINANCIAL STATEMENTS

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
Year Ended June 30, 2006

		<u>Program Receipts</u>	
	<u>Disbursements</u>	<u>Charges</u> <u>Services</u>	<u>Miscellaneous</u>
Functions/Programs:			
Business Type Activities:			
Operating and Maintenance Account	\$ 2,002,223	\$ 2,423,506	\$ 106,327
Sinking Fund Account	314,526	-	-
Improvement Account	400	-	93,108
Power Source Account	-	-	10,250
Consumers' Deposit Account	2,047	-	2,729
Reserve Account	-	-	7,096
Communications Account	887,532	813,865	360,268
Total	<u>\$ 3,206,728</u>	<u>\$ 3,237,371</u>	<u>\$ 579,778</u>
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash Basis Net Assets End of Year			
Cash Basis Net Assets:			
Restricted:			
Debt service			
Unrestricted			
Total Cash Basis Net Assets			

See notes to financial statements.

Net (Disbursements) Receipts
and Changes in Cash Basis
Net Assets

\$ 527,610
-314,526
92,708
10,250
682
7,096
286,601

\$ 610,421

\$ 610,421
5,899,023

\$ 6,509,444

\$ 1,900,000
4,609,444

\$ 6,509,444

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
ENTERPRISE FUNDS
As of and For the Year Ended June 30, 2006

	O & M	Sinking	Improvement
Operating Receipts:			
Charges for service	\$ 2,423,506	\$ -	\$ -
Miscellaneous	27,388	-	-
Total Operating Receipts	<u>\$ 2,450,894</u>	<u>\$ -</u>	<u>\$ -</u>
Operating Disbursements:			
Business type activities	<u>\$ 2,002,223</u>	<u>\$ 314,526</u>	<u>\$ 400</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ 448,671</u>	<u>\$ -314,526</u>	<u>\$ -400</u>
Non-Operating Receipts (Disbursements):			
Transfers in	\$ -	\$ 314,526	\$ -
Interest on investments	78,939	-	93,108
Total Non-Operating Receipts (Disbursements)	<u>\$ 78,939</u>	<u>\$ 314,526</u>	<u>\$ 93,108</u>
Excess of receipts over disbursements	<u>\$ 527,610</u>	<u>\$ -</u>	<u>\$ 92,708</u>
Operating transfers out	-66	-	-243,448
Net change in cash balances	<u>\$ 527,544</u>	<u>\$ -</u>	<u>\$ -150,740</u>
Cash balances beginning of year	1,890,640	-	2,455,042
Cash Balances End of Year	<u>\$ 2,418,184</u>	<u>\$ -</u>	<u>\$ 2,304,302</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	\$ -	\$ 1,415,000
Unreserved	2,418,184	-	889,302
Total Cash Basis Fund Balances	<u>\$ 2,418,184</u>	<u>\$ -</u>	<u>\$ 2,304,302</u>

See notes to financial statements.

Power Source	Consumers' Deposits	Reserve	Communi- cations	Total
\$ -	\$ -	\$ -	\$ 813,865	\$ 3,237,371
-	2,255	-	347,518	377,161
\$ -	\$ 2,255	\$ -	\$ 1,161,383	\$ 3,614,532
\$ -	\$ 2,047	\$ -	\$ 887,532	\$ 3,206,728
\$ -	\$ 208	\$ -	\$ 273,851	\$ 407,804
\$ -	\$ -	\$ -	\$ 66	\$ 314,592
10,250	474	7,096	12,750	202,617
\$ 10,250	\$ 474	\$ 7,096	\$ 12,816	\$ 517,209
\$ 10,250	\$ 682	\$ 7,096	\$ 286,667	\$ 925,013
-	-	-	-71,078	-314,592
\$ 10,250	\$ 682	\$ 7,096	\$ 215,589	\$ 610,421
781,312	33,823	204,385	533,821	5,899,023
\$ 791,562	\$ 34,505	\$ 211,481	\$ 749,410	\$ 6,509,444
\$ -	\$ -	\$ -	\$ 485,000	\$ 1,900,000
791,562	34,505	211,481	264,410	4,609,444
\$ 791,562	\$ 34,505	\$ 211,481	\$ 749,410	\$ 6,509,444

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS –
PROPRIETARY FUNDS
As of and For the Year Ended June 30, 2006

Total Enterprise Funds Cash Balances (page 7)	<u>\$ 6,509,444</u>
Cash Basis Net Assets of Business Type Activities (page 7)	<u>\$ 6,509,444</u>
Net Change in Cash Balances (page 8)	<u>\$ 610,421</u>
Change in Cash Balance of Business Type Activities (page 8)	<u>\$ 610,421</u>

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Grundy Center Municipal Utilities is a city municipal utility for the City of Grundy Center, Iowa. It has a separate governing body, the Board of Trustees, who are appointed for staggered six-year terms by the Mayor and approved by the City Council. The Department maintains its own system of books, records and accounts apart from the City. The City is audited separately.

B. Basis of Presentation

Government-wide Financial Statements-The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the Utilities. For the most part, the effect of inter-fund activity has been removed from this statement. Business type activities, which rely to a significant extent on fees and charges for services are reported separately.

The Statement of Activities and Net Assets presents the Utilities' non-fiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function.

Fund Financial Statements-Separate financial statements are provided for the proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements.

The utilities reports the following major proprietary funds:

Operating and Maintenance Account – The Operating and Maintenance Account is the general operating account. All user fees and other receipts that are not allocated to some other account are recorded in this account. Items paid from this account include general operating expenses, fixed charges and capital improvement costs that are not paid through other accounts.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sinking Fund Account – The Sinking Fund Account records the payment of interest and principal on the Department's long-term debt.

Improvement Account – This account is for purchases of major capital improvements.

Power Source Account – The Power Source Account is established to accumulate funds to secure an interest in available power from another supply source for future needs of the City.

Consumers' Deposit Account – The Consumers' Deposit Account is utilized to account for consumer deposits received and refunded.

Reserve Account – The purpose of this account is to retain cash reserves for debt service. It is a backup to the Sinking Fund Account, thus ensuring payment of long-term debt.

Communications Account – The Department offers internet, cable TV and telecommunications service to utility customers that desire it. This account was established to record user fees received and operating expenses and capital improvements costs incurred.

C. Measurement Focus and Basis of Accounting

The Grundy Center Municipal Utilities maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the Department are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present the financial position and the results of operations of the Enterprise Fund in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 2 – CASH AND POOLED INVESTMENTS

The Department's deposits at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Department is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Department's investments are categorized to give an indication of the level of risk assumed by the Department at year end. The Department's investments are all Category 1, which means that the investments are insured or registered, or the securities are held by the Department or its agent in the Department's name. The Department's investments at June 30, 2006 are as follows:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Maturity</u>
North Iowa Municipal Electric Cooperative	\$120,000	\$120,000	Indefinite

In addition, the Department had investments in the Iowa Public Agency Investment Trust, which are valued at an amortized cost of \$295,404 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk – The Department's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. The Department requests bids before it makes an investment.

Credit risk – The Department's investment in the Iowa Public Agency Investment Trust is un-rated.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3 – BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

<u>Year Ending June 30,</u>	Revenue Notes	
	Principal	Interest
2007	\$ 220,000	\$ 99,487
2008	230,000	88,567
2009	235,000	76,985
2010	250,000	65,043
2011	265,000	52,092
2012	275,000	38,215
2013	295,000	23,695
2014	65,000	7,963
2015	65,000	3,998
Total	<u>\$ 1,900,000</u>	<u>\$ 456,045</u>

The Electric Revenue Capital Loan Notes and the Telecommunications Revenue Capital Loan Notes are not general obligation notes, nor are they payable in any manner by taxation. They are payable solely and only from the net earnings of the utilities' receipts. The bank holds first lien on the future net revenues of the system. The City of Grundy Center is not liable by reason of the failure of the net revenues to be sufficient for the payment of the notes.

The Electric Revenue Capital Loan Notes are composed of 511 individual notes of \$5,000 each. Interest payments are made semi-annually and principal payments are made yearly.

The Telecommunications Revenue Capital Loan Notes are composed of 140 individual notes of \$5,000 each. Interest payments are made semi-annually and principal payments are made yearly.

NOTE 4 – OTHER OBLIGATIONS

The Communications Fund owes the Operating and Maintenance Fund \$709,153.55. Interest of \$2,954.81 per month is being paid. The interest rate is 5%. No principal is being paid at this time.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 5 – PENSION AND RETIREMENT BENEFITS

The Department contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines IA 50306-9117.

Plan members are required to contribute 3.70% of their annual salary, and the Department is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Department's contribution to IPERS for the years ended June 30, 2006 and 2005 were \$23,842 and \$23,552, respectively, equal to the required contributions for each year.

NOTE 6 – COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Department until used or paid. The Department's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2006, primarily relating to the operating and management account, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 18,366
Sick leave	7,183
Total	<u>\$ 25,549</u>

This liability has been computed based on rates of pay as of June 30, 2006.

NOTE 7 – OTHER INVESTMENTS

The Department is a member of the North Iowa Municipal Electric Cooperative Association (NIMECA), which uses Corn Belt Power Cooperative of Humboldt, Iowa as a power supply source. NIMECA's desire is to obtain long-term transmission and generation of electric power from a common transmission system to benefit the member utilities. The Department has the following investments with NIMECA and Corn Belt:

- a. In 1983, NIMECA required a cash member advance from the Department in the amount of \$120,000. The cash advance earns interest and surplus and credits from NIMECA. The Department's share of the fund's accrued earnings for the current fiscal year amounted to \$24,890. These accrued earnings are not reflected in the Department's cash basis receipts. During the year, \$47,588 was repaid to this fund (see (b) below). At June 30, 2006, the Department's member advance investment balance with NIMECA was \$463,005.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 7 – OTHER INVESTMENTS (continued)

- b. In 1991, the Department entered into an agreement for the “lease/purchase” from Corn Belt of an interest in electrical generation and transmission facilities. On July 10, 1991, \$1,634,480 was paid to Corn Belt for a .3333% interest in the Neal #4 generating plant and a .4% interest in the Lehigh-Webster transmission facilities.

As part of its cost of purchased power, the Department pays its proportionate share of the expenses (fuel, operations, maintenance, etc.) of the generation and transmission facilities for the life of these facilities, which is the term of this agreement. Should the Department default on its payments, Corn Belt can terminate the agreement and pay back to the Department the depreciated value of the facilities.

Production and transmission capital improvement funds have been established through NIMECA for improvements and expansion of the facilities. The Department paid \$179,773 into these funds as part of its cash disbursements for purchased power during the current year.

The Department’s accrued share of the system’s improvement costs was \$49,570. The Department’s share of the funds’ accrued interest earnings for the current year amounted to \$40,790. These accruals are not reflected in the current year’s cash basis receipts or disbursements.

As indicated in (a) above, \$47,588 was repaid to the member advance fund. The balance in the production and transmission capital improvement funds at June 30, 2006 is \$797,790.

- c. The Department also has accumulated deferred patronage dividends of \$34,890 through its participation with NIMECA and Corn Belt. These accrued deferred patronage dividends are not reflected in the current year’s cash basis receipts. During the current fiscal year, Corn Belt paid deferred patronage dividends of \$4,359 to the Department.

NOTE 8 – RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risk are covered by the purchase of commercial insurance. The Department assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 9 – RELATED PARTY TRANSACTIONS

The City of Grundy Center pays the Department monthly fees for electricity and telephone. During the current fiscal year, the City of Grundy Center paid \$90,825.

NOTE 10 – CONTINGENCIES

Accounts receivable totaling \$181,630 from the Department utility customers are currently due. \$144,861, or 80%, of that total is over ninety days past due.

NOTE 11 – INTERFUND TRANSFERS

The detail of inter-fund transfers for the year ended June 30, 2006 is as follows:

Transfer To	Transfer From	Amount
Sinking Fund	Improvement Fund	\$ 243,448
Sinking Fund	Communications Fund	71,078
		<u>\$ 314,526</u>
Communications Fund	O & M Fund	<u>\$ 66</u>
Total		<u>\$ 314,592</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

REQUIRED SUPPLEMENTARY INFORMATION

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

COMPARISON OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
ACTUAL TO BUDGET – ENTERPRISE FUND
Year Ended June 30, 2006

	Actual	Budget	Variance Favorable (Unfavorable)	Net as % of Budget
Receipts:				
Charges for service	\$ 3,237,371	\$ 2,780,000	\$ 457,371	16%
Other income	579,778	278,600	301,178	108%
Total Receipts	<u>\$ 3,817,149</u>	<u>\$ 3,058,600</u>	<u>\$ 758,549</u>	<u>25%</u>
Disbursements:				
Electric and Telecommunications	<u>\$ 3,206,728</u>	<u>\$ 6,582,500</u>	<u>\$ 3,375,772</u>	<u>51%</u>
Excess of receipts over disbursements	\$ 610,421			
Balance beginning of year	<u>5,899,023</u>			
Balance End of Year	<u>\$ 6,509,444</u>			

See accompanying independent auditor's report.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2006

In accordance with the Code of Iowa, the Grundy Center City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

OTHER SUPPLEMENTAL INFORMATION

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
OPERATING AND MAINTENANCE ACCOUNT

Years Ended June 30, 2006 and 2005

	2006	2005
Receipts:		
Charges for Service:		
Sale of Electricity:		
Residential	\$ 1,611,200	\$ 1,382,942
Commercial	812,306	686,230
Total Electrical Receipts	<u>\$ 2,423,506</u>	<u>\$ 2,069,172</u>
Miscellaneous:		
Water collection	\$ 472,808	\$ 410,088
Garbage collection	173,166	169,605
Sewer rental collection	184,339	177,359
Sales tax	125,269	120,271
Interest received	78,939	64,294
Corn Belt patronage dividend	-	4,852
Miscellaneous receipts	26,633	27,262
Total Miscellaneous Receipts	<u>\$ 1,061,154</u>	<u>\$ 973,731</u>
Total Receipts	<u>\$ 3,484,660</u>	<u>\$ 3,042,903</u>
Collections Transferred to City:		
Water	\$ 472,808	\$ 410,088
Garbage	173,166	169,605
Sewer rental	184,555	177,575
Meter rent	2,168	2,146
Sales tax	37,721	33,298
Local option tax	18,824	16,445
Sales tax paid to State	65,585	67,670
	<u>\$ 954,827</u>	<u>\$ 876,827</u>
Net Receipts From Operations	<u>\$ 2,529,833</u>	<u>\$ 2,166,076</u>
Disbursements:		
Electric:		
Administration:		
Salaries:		
Superintendent	\$ 85,678	\$ 76,349
Trustees' fees	1,800	1,800
	<u>\$ 87,478</u>	<u>\$ 78,149</u>
Employee Benefits:		
FICA/Medicare	\$ 24,773	\$ 23,633
IPERS	18,855	17,910

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
OPERATING AND MAINTENANCE ACCOUNT
Years Ended June 30, 2006 and 2005

	2006	2005
Disbursements: (continued)		
Electric: (continued)		
Administration: (continued)		
Employee Benefits: (continued)		
Group insurance and claims	\$ 97,675	\$ 102,949
Year's benefit	1,480	1,425
Uniform expense	3,185	3,830
Educational benefit	-	50
	<u>\$ 145,968</u>	<u>\$ 149,797</u>
Regulatory Commission:		
Fees and supplies	\$ 1,900	\$ 5,366
PCB	4,059	1,888
	<u>\$ 5,959</u>	<u>\$ 7,254</u>
Vehicle Expense:		
Gasoline and oil	\$ 9,666	\$ 7,307
Repairs and supplies	5,996	8,297
	<u>\$ 15,662</u>	<u>\$ 15,604</u>
Other Expenditures:		
Insurance	\$ 39,076	\$ 43,923
Telephone	3,067	2,695
Legal fees	-	100
Audit fee	3,325	3,375
Travel and training	558	3,828
Use tax	3,610	4,253
Dues	4,592	4,790
Publications	893	1,161
Investment and banking fees	492	518
Office maintenance and supplies	1,672	2,005
Miscellaneous	38,913	31,951
	<u>\$ 96,198</u>	<u>\$ 98,599</u>
Capital Outlay:		
Office equipment	\$ 69	\$ 7
Tools, shop and garage equipment	2,273	5,181
Miscellaneous equipment	1,287	16,897
Transportation equipment	-	26,168
	<u>\$ 3,629</u>	<u>\$ 48,253</u>
Total Administration	<u>\$ 354,894</u>	<u>\$ 397,656</u>
Purchased power	<u>\$ 1,293,523</u>	<u>\$ 1,072,782</u>

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
OPERATING AND MAINTENANCE ACCOUNT
Years Ended June 30, 2006 and 2005

	2006	2005
Disbursements: (continued)		
Electric: (continued)		
Generation:		
Salaries:		
Operators	\$ 740	\$ 232
Plant maintenance	37,619	34,201
	<u>\$ 38,359</u>	<u>\$ 34,433</u>
Other Expenditures:		
Plant maintenance – material	\$ 4,459	\$ 4,094
Fuel and oil	394	-
Supplies	6,926	13,454
Miscellaneous	-	3,852
	<u>\$ 11,779</u>	<u>\$ 21,400</u>
Total Generation	<u>\$ 50,138</u>	<u>\$ 55,833</u>
Distribution:		
Line labor	\$ 140,674	\$ 132,932
Other Expenditures:		
Supplies	\$ 497	\$ 951
Street lighting and signal maintenance	801	684
	<u>\$ 1,298</u>	<u>\$ 1,635</u>
Consumer Accounts Expense:		
Meter reading-labor	\$ 5,000	\$ 4,992
Accounting and collection-labor	64,858	66,443
Supplies and postage	12,438	14,242
Returned checks	4,612	2,514
Miscellaneous	1,389	599
	<u>\$ 88,297</u>	<u>\$ 88,790</u>
Capital Outlay:		
Overhead conductors and devices	\$ 15,356	\$ 28,599
Underground conductors and conduit	41,764	16,433
Transformers	8,379	19,247
Distribution structures	260	18,158
Meters	5,551	10,541
Street lights	2,089	1,593
Fiber optics engineering fees	-	2,877
	<u>\$ 73,399</u>	<u>\$ 97,448</u>

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
OPERATING AND MAINTENANCE ACCOUNT
Years Ended June 30, 2006 and 2005

	2006	2005
Disbursements: (continued)		
Total Distribution	\$ 303,668	\$ 320,805
Total Expenses	\$ 2,002,223	\$ 1,847,076
Excess of receipts over disbursements	\$ 527,610	\$ 319,000
Other Financing Sources (Uses):		
Transfer out	\$ -66	\$ -67
Excess (deficiency) of receipts and other financing sources over (under)		
disbursements and other financing uses	\$ 527,544	\$ 318,933
Balance beginning of year	1,890,640	1,571,707
Balance End of Year	\$ 2,418,184	\$ 1,890,640

See accompanying independent auditor's report.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
SINKING FUND ACCOUNT
Years Ended June 30, 2006 and 2005

	2006	2005
Receipts	\$ -	\$ -
Disbursements:		
Electric:		
Electric Revenue Capital Loan Notes:		
Principal payments	\$ 165,000	\$ 160,000
Interest payments	78,448	85,967
	<u>\$ 243,448</u>	<u>\$ 245,967</u>
Telecommunications:		
Telecommunications Revenue Capital Loan Notes:		
Principal payments	\$ 40,000	\$ 40,000
Interest payments	31,078	33,237
	<u>\$ 71,078</u>	<u>\$ 73,237</u>
Total Disbursements	<u>\$ 314,526</u>	<u>\$ 319,204</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ -314,526</u>	<u>\$ -319,204</u>
Other Financing Sources (Uses):		
Transfer from Improvement Fund Account	\$ 243,448	\$ 245,967
Transfer from Communications Fund Account	71,078	73,237
	<u>\$ 314,526</u>	<u>\$ 319,204</u>
Excess of receipts and other financing sources over disbursements and other financing uses	\$ -	\$ -
Balance beginning of year	-	-
Balance End of Year	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
IMPROVEMENT ACCOUNT
Years Ended June 30, 2006 and 2005

	2006	2005
Receipts:		
Interest	\$ 93,108	\$ 47,919
Disbursements:		
Electric	\$ 400	\$ 401
Excess of receipts over disbursements	\$ 92,708	\$ 47,518
Other Financing Sources (Uses):		
Transfer to Sinking Fund Account	\$ -243,448	\$ -245,967
Excess of receipts and other financing sources over disbursements and other financing uses	\$ -150,740	\$ -198,449
Balance beginning of year	2,455,042	2,653,491
Balance End of Year	<u>\$ 2,304,302</u>	<u>\$ 2,455,042</u>

See accompanying independent auditor's report.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
POWER SOURCE ACCOUNT
Years Ended June 30, 2006 and 2005

	2006	2005
Receipts:		
Interest	\$ 10,250	\$ 10,889
Disbursements:		
Electric	\$ -	\$ -
Excess of receipts over disbursements	\$ 10,250	\$ 10,889
Balance beginning of year	781,312	770,423
Balance End of Year	\$ 791,562	\$ 781,312

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
CONSUMERS' DEPOSIT ACCOUNT
Years Ended June 30, 2006 and 2005

	2006	2005
Receipts:		
Consumers' deposits	\$ 2,255	\$ 2,700
Interest	474	366
Total Receipts	<u>\$ 2,729</u>	<u>\$ 3,066</u>
Disbursements:		
Electric:		
Consumers' deposit refunds	\$ 2,035	\$ 2,100
Interest paid on consumers' deposits	12	10
Total Disbursements	<u>\$ 2,047</u>	<u>\$ 2,110</u>
Excess of receipts over disbursements	\$ 682	\$ 956
Balance beginning of year	<u>33,823</u>	<u>32,867</u>
Balance End of Year	<u>\$ 34,505</u>	<u>\$ 33,823</u>

See accompanying independent auditor's report.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
RESERVE ACCOUNT

Years Ended June 30, 2006 and 2005

	2006	2005
Receipts:		
Interest	\$ 7,096	\$ 2,848
Disbursements:		
Electric	\$ -	\$ -
Excess of receipts over disbursements	\$ 7,096	\$ 2,848
Balance beginning of year	204,385	201,537
Balance End of Year	\$ 211,481	\$ 204,385

See accompanying independent auditor's report.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF CASH TRANSACTIONS- ENTERPRISE FUND
COMMUNICATIONS ACCOUNT
Years Ended June 30, 2006 and 2005

	2006	2005
Receipts:		
Miscellaneous	\$ 323,631	\$ 524,178
Interest	12,750	2,975
Internet fees	237,656	211,620
Cable TV fees	244,417	240,291
Telephone fees	331,792	326,663
Tax	23,887	23,731
Total Receipts	<u>\$ 1,174,133</u>	<u>\$ 1,329,458</u>
Disbursements:		
Telecommunications:		
Internet/phone/cable charges	\$ 668,476	\$ 821,625
Wages	85,918	98,181
Supplies	30,993	17,336
Franchise fee	7,209	-
Interest paid	35,457	35,458
Telephone	3,215	4,037
Payroll taxes and benefits	11,400	13,192
Miscellaneous	-	8
Sales and other taxes paid	24,538	25,033
E911 fees	12,611	12,375
Dues	1,324	8,111
Trustees' compensation	1,800	1,800
Insurance	4,591	5,274
Total Disbursements	<u>\$ 887,532</u>	<u>\$ 1,042,430</u>
Excess of receipts over disbursements	<u>\$ 286,601</u>	<u>\$ 287,028</u>
Other Financing Sources (Uses):		
Transfer to Sinking Fund Account	\$ -71,078	\$ -73,237
Transfer from O&M Fund Account	66	67
Total Other Financing Sources (Uses)	<u>\$ -71,012</u>	<u>\$ -73,170</u>
Excess of receipts and other financing sources over disbursements and other financing uses	<u>\$ 215,589</u>	<u>\$ 213,858</u>
Balance beginning of year	533,821	319,963
Balance End of Year	<u>\$ 749,410</u>	<u>\$ 533,821</u>

See accompanying independent auditor's report.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2006

Obligation

Electric Revenue Capital Loan Notes:

Date of Issue	July 1, 1998
Interest Rate	4.20-5.15%
Amount originally issued	<u>\$ 2,555,000</u>
Balance beginning of year	\$ 1,580,000
Issued during year	-
Redeemed during year	<u>-165,000</u>
Balance End of Year	<u>\$ 1,415,000</u>
Interest Paid	<u>\$ 78,448</u>
Interest Due and Unpaid	<u>\$ -</u>

Telecommunications Revenue Capital Loan Notes:

Date of Issue	Mar 1, 2000
Interest rate	5.00-6.15%
Amount originally issued	<u>\$ 700,000</u>
Balance beginning of year	\$ 525,000
Issued during year	-
Redeemed during year	<u>-40,000</u>
Balance End of Year	<u>\$ 485,000</u>
Interest Paid	<u>\$ 31,078</u>
Interest Due and Unpaid	<u>\$ -</u>

See accompanying independent auditor's report.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

BOND AND NOTE MATURITIES
June 30, 2006

Revenue Notes			
Electric			
Issued July 1, 1998			
Year Ending June 30,	Interest Rates	Amount	
2007	4.80%	\$	175,000
2008	4.85%		185,000
2009	4.90%		190,000
2010	5.00%		200,000
2011	5.05%		210,000
2012	5.10%		220,000
2013	5.15%		235,000
Total		\$	<u>1,415,000</u>

Revenue Notes			
Telecommunications			
Issued March 1, 2000			
Year Ending June 30,	Interest Rates	Amount	
2007	5.60%	\$	45,000
2008	5.80%		45,000
2009	5.85%		45,000
2010	5.90%		50,000
2011	5.95%		55,000
2012	6.00%		55,000
2013	6.05%		60,000
2014	6.10%		65,000
2015	6.15%		65,000
Total		\$	<u>485,000</u>

See accompanying independent auditor's report.

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION-
ALL GOVERNMENTAL FUNDS
For the Last Four Years

	2006	2005	2004	2003
Receipts:				
Interest	\$ 202,617	\$ 129,291	\$ 92,107	\$ 123,604
Transfers in	314,592	319,271	813,226	611,390
Charges for service	3,237,371	2,848,242	2,763,910	3,214,047
Miscellaneous	377,161	582,723	1,183,392	365,217
Total	<u>\$ 4,131,741</u>	<u>\$ 3,879,527</u>	<u>\$ 4,852,635</u>	<u>\$ 4,314,258</u>
Disbursements:				
Operating:				
Business type activities	\$ 3,521,320	\$ 3,530,492	\$ 3,660,283	\$ 3,954,335
Total	<u>\$ 3,521,320</u>	<u>\$ 3,530,492</u>	<u>\$ 3,660,283</u>	<u>\$ 3,954,335</u>

See accompanying independent auditor's report.

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

Grundy Center Municipal Utilities
Grundy Center, Iowa

To the Board of Trustees:

I have audited the financial statements of the Grundy Center Municipal Utilities as of and for the year ended June 30, 2006, and have issued my report thereon dated October 17, 2006. My report expressed an unqualified opinion on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Department's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not provide assurance on the internal control over financial reporting. However, I noted one matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Department's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as item 06-I-A in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the reportable condition described above, item 06-I-A, is a material weakness. Prior year reportable conditions have been resolved except for item 06-I-A.

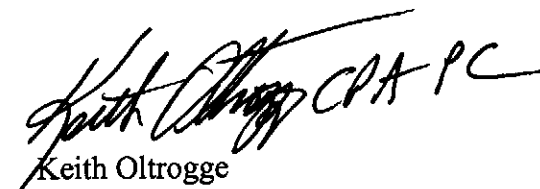
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Department's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the Department. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved, except for item 06-II-G.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Grundy Center Municipal Utilities and other parties to whom the Grundy Center Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the Department during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.


Keith Oltrogge
Certified Public Accountant

October 17, 2006

GRUNDY CENTER MUNICIPAL UTILITIES
Grundy Center, Iowa

SCHEDULE OF FINDINGS
Year Ended June 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

06-I-A Segregation of Duties-One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation-I realize that with a limited number of office employees, segregation of duties is difficult. However, the Department should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response-We will continue to monitor this.

Conclusion-Response acknowledged. The Department should continue to segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Part II: Other Findings Related to Statutory Reporting:

06-II-A Official Depositories-A resolution naming official depositories has been adopted by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ending June 30, 2006.

06-II-B Certified Budget-Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.

06-II-C Questionable Disbursements-I noted no disbursements which would not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- 06-II-D Travel Expense-Disbursements of Department money for travel expenses of spouses of Department officials to a national convention were noted.
- Recommendation-The Department should review and update its procedures to ensure reimbursement is received for travel expenses of spouses of Department officials or employees, unless a business purpose can be documented. There were events scheduled for spouses at the convention.
- Response-We will change our procedures to document the purpose of these trips in the future.
- Conclusion-Response acknowledged.
- 06-II-E Business Transactions- There were no business transactions between the Department and Department officials or employees.
- 06-II-F Bond Coverage-Surety bond coverage of Department officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 06-II-G Board Minutes-No transactions were found that I believe should have been approved in the Board minutes but were not.
- Although minutes of Board proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, the minutes did not include a total for the expenditures from each fund and a summary of all receipts, and salaries were not published.
- Recommendation-The Department should publish minutes and salaries as required.
- Response-We will publish minutes and salaries as required.
- Conclusion-Response accepted.
- 06-II-H Deposits and Investments-No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Department's investment policy were noted.
- 06-II-I Revenue Bonds and Notes-The Department has complied with the revenue bond and note resolutions.
- 06-II-J Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.